REAGENT CHEMICAL

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Mr. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423

RE: STB Ex Parte No. 582 – Major railroad consolidations and the present and future structure of the North American railroad industry.

Dear Secretary Williams:

In a decision issued on October 3, 2000, the Board announced that it was seeking public comment on railroad consolidations and the present and future structure of the North American railroad industry.

Please consider this as the verified statement of Edwin E. Vigneaux, on behalf of Reagent Chemical & Research, Inc.

I am currently Traffic Manager at Reagent Chemical, assigned the duties of all rail functions, i.e. rate and service negotiations, fleet utilization, fleet maintenance, etc. I have been serving in this position for five years, and have been involved in railroad transportation for almost thirty years.

Reagent Chemical is a marketer of Hydrochloric Acid. We ship product from almost 50 different sources to customers or terminals throughout North America. We operate a fleet of over 600 privately owned or leased rubber lined tank cars and over 150 privately owned rubber lined tank trucks. We make over 5,000 tank car shipments annually, and have a transportation budget of over $10 million.

Reagent Chemical is very dependent upon consistent and dependable rail service. Over the past several years, we have seen the rail industry shrink from forty major rail carriers to just five today. In every instance, the railroads involved in the consolidation of these systems promised improved service and more competition. In our opinion, these mergers have caused a severe disruption of service and have done nothing to bring competitiveness to the rail industry.

Reagent Chemical is extremely concerned about the continued consolidation of the rail industry. We applauded the Board's initiative to place a moratorium on future rail mergers in an effort to find ways to insure that future mergers are a benefit for all concerned.

However, it would seem that the Board's proposed rules changes have been in place since the Staggers Act of 1980. The Board had the authority to do whatever it needed to protect the rights of shippers and railroads. In our way of thinking, the Board has only protected the rights of the railroads. And the most recent proposed rules changes seem to be more rhetoric than substance.

In all of the railroad mergers since 1980, the merging parties promised to enhance competition, reduce costs and provide better service. None of these promises have been kept, except possibly reducing their own operating cost. Service today, especially to a small shipper like Reagent, is no better than it was twenty years ago.

Reagent is deeply concerned that the Board has done nothing through the proposed rules changes to address competition. There is nothing in the revised regulations that impose standards with respect to gateways, bottleneck pricing or competitive access. There is a lot of ominous sounding words, but nothing specific that addresses penalties for non-compliance.

Our single most costly asset is our rail equipment. We ship approximately 1 million tons of product annually via rail, and we average 7 turns per railcar per year, primarily due to inconsistent rail service. If we received better rail service, we could either reduce the number of cars needed to move our product, or move more product with the equipment we now have in service.

Competition is the engine that drives the American economy. It should be the engine that drives the railroads to do a better job. But competition in the rail industry has been allowed to disintegrate over the past twenty years, and the railroad initiative has disintegrated with it. The railroads complain about their poor return on investment, but don't seem to be able to improve it, even with the reductions in cost. One way to improve the bottom line is to attract more business and one way to do that is to provide a better service than other competitors.

The Railroad-Shipper Transportation Advisory Council deduced in 1998 that the rail industry was capacity constrained, with little or no resources to increase capacity. The Council also determined that without some regulatory reform and infusion of public funds, the rail industry would continue to shrink and large shippers would be favored over the small shippers. The findings of the Council in 1998 are truer today than ever.

In a recent interview with The Washington Post, Rob Krebs, Chairman, Burlington Northern Santa Fe, stated that "his company had reversed their strategy of investment to cutting back on capital improvements and continuing a stock buy-back program, which would at least enhance shareholder value." Mr. Krebs went on to say that, "The stock buy-back program is now a better investment than investing in the railroad." Krebs said "shippers, in pressing the government to intervene by allowing other railroads to use his lines have provided us with one incentive after another to disinvest." That, he said, could lead to a return of freight to the highways because of higher rates and a lack of capacity on the railroad. Krebs said BNSF plans to spend only enough to keep the railroad in good shape.

Statements like those of Mr. Krebs are a great concern to Reagent Chemical. If the other major railroads feel the only way to improve their return on investment is to reduce their capital expenditures, then they are using short term thinking to determine their future. Experience tells us that if a company does not grow, it will soon die. And the only way for a company to grow is to (1) increasing the capacity of their franchise, or (2) improve the production of the current franchise. If the railroads feel they cannot improve the production of their current property and see no incentive to increase the capacity, then it sounds as if they are resigned to a slow death. And captive rail shippers along with them.

The above comments lead us to conclude the following:

(1) There will be no significant increase in rail capacity in the near future.
(2) There will be no increase in competition between the railroads due to continued consolidation.
(3) There will be no improved service due to lack of capacity for growth and spikes in demand.
(4) There will be a significant increase in rates.

We applaud the Board for its decision to solicit public comments concerning the proposed rules changes. Thank you for allowing Reagent Chemical to air its views.

Sincerely,

Edwin E. Vigneaux

Edwin E. Vigneaux
Traffic Manager